FOR SERIAL ACQUIRERS AND SEARCH FUNDS

The three quiet deal killers to screen *before the LOI locks your leverage.*

Use this before signing, not after. The goal is not to complete diligence. It is to confirm that price, structure, and exclusivity are calibrated to the actual risk profile while you can still walk. Run the screen on monthly revenue, customer invoices, payroll, owner distributions, and the latest balance sheet. Where source data is weak, score the item amber until validated.

0–2 PTS	3–5 PTS	6+ PTS
▶ PROCEED	▶ RECALIBRATE	▶ RESOLVE FIRST
Move to standard confirmatory diligence.	Price, structure, or diligence scope should flex before you sign.	Diligence it now or explicitly reserve economics in the LOI.

No. 1 CUSTOMER CONCENTRATION DRIFT

The multiple assumes revenue breadth. Verify it.

CALCULATE

- Top 1, top 3, and top 10 customer revenue share, by month.
- Trailing 3-month share versus trailing 12-month share.
- Gross margin by top customer where available.

AMBER FLAGS · 1 PT

- Top customer up 5–10 points in the last quarter.
- One-time project revenue embedded in the run rate.
- Customer name changes or invoice memo inconsistencies.

RED FLAGS · 2 PTS

- Top customer up more than 10 points with no contract support.
- Recent churn hidden by growth in one account.
- Customer-level margin materially below company average.

No. 2 WORKING-CAPITAL CLIFF

EBITDA is an opinion. Cash need at close is a fact.

CALCULATE

- Monthly AR, AP, inventory, deferred revenue, and accrued payroll.
- Cash conversion cycle trend across the last 12 months.
- Normalized working capital versus the proposed closing peg.

AMBER FLAGS · 1 PT

- AR days expanding while revenue accelerates.
- Vendor payables stretched in the months before the process.
- Inventory build not tied to confirmed demand.

RED FLAGS · 2 PTS

- Cash collections lag booked revenue by more than one cycle.
- Payroll, tax, or accrual liabilities omitted from the peg.
- Post-close cash need not reflected in enterprise value.

No. 3 OWNER-COMP NORMALIZATION

You are buying the business, not the founder's hours.

CALCULATE

- All salary, distributions, personal expenses, and related-party fees.
- Replacement cost for the owner's actual duties after transition.
- EBITDA bridge before and after replacement compensation.

AMBER FLAGS · 1 PT

- Owner underpaid relative to the role's real scope.
- Family members on payroll with unclear duties.
- Add-backs supported by narrative, not ledger detail.

RED FLAGS · 2 PTS

- Founder is the de facto sales, finance, and ops leader.
- Replacement comp erases most of the proposed add-back.
- Related-party rent or fees never market-tested.

SCORE IT, THEN WRITE THE LOI

Decision rubric

Two rows per screen. Assign 0, 1, or 2 points each, total the six rows, and tie every open item to a specific structure, diligence, or price protection before you sign.

SCREEN	▶ GREEN · 0 PTS	▶ AMBER · 1 PT	▶ RED · 2 PTS
Concentration drift	Top customer share stable or declining; growth is broad-based.	Top customer share rising; explanation plausible but not evidenced.	Recent growth depends on one customer, project, or channel.
Revenue quality	Recurring, contracted, or repeat behavior visible in invoice history.	Mixed recurring and project revenue; churn data incomplete.	Large recent invoices are non-recurring or margin-dilutive.
Working-capital trend	AR, AP, and inventory days consistent with historical norms.	One component moving adversely and needing support.	Multiple components deteriorating, or liabilities omitted from the peg.
Cash conversion	Bookings, billings, collections, and cash reconcile directionally.	Timing gaps explainable by seasonality or known billing terms.	Reported EBITDA growth is not converting to cash.
Owner-comp normalization	Owner comp near market, or replacement cost is modest.	Replacement cost is material but quantifiable.	Replacement materially reduces EBITDA, or transition risk is high.
Add-back support	Add-backs tie to ledger detail and non-recurring evidence.	Some support exists; documentation is incomplete.	Add-backs rely primarily on seller narrative.

LOI CALIBRATION

- ☐ Does the price assume revenue breadth the customer file does not support?
- ☐ Does the LOI name a working-capital peg methodology, not a generic target?
- ☐ Should seller note, earnout, or holdback economics absorb unresolved red flags?
- ☐ Is exclusivity conditional on customer, payroll, and AR/AP exports within 5 business days?
- ☐ Are transition duties, replacement hires, and post-close salary reflected in EBITDA?

DATA REQUEST STARTER SET

- ☐ Monthly revenue by customer, last 24 months.
- ☐ Invoice detail with invoice, due, and paid dates, item, and memo fields.
- ☐ Monthly balance sheet: AR, AP, inventory, deferred revenue, accruals.
- ☐ Payroll register, owner distributions, card detail, related-party payments.
- ☐ Contracts, renewal dates, pricing schedules, top-customer gross margin.

> *If an item can move enterprise value or closing cash beyond your bid-ask tolerance, it is not a post-LOI discovery item.*
>
> Diligence it before signing, reserve economics in the LOI, or make it an explicit condition to proceed.

SUGGESTED LOI LANGUAGE

Customer drift	Purchase price assumes no material adverse change in top-customer revenue concentration, churn, gross margin, or contract status through close.
Working capital	Closing payment subject to a normalized working-capital peg calculated from historical monthly balances, with debt-like treatment of overdue payroll, tax, and vendor liabilities.
Owner comp	Adjusted EBITDA subject to validation of owner compensation, replacement management cost, related-party payments, and add-back support.

This screen is the first pass of a full diligence read. Zenith Analysis runs the complete version directly from the target's accounting file: concentration analysis, working-capital peg, add-back validation, and an EBITDA bridge traced to source, every flag tied to a ledger line.
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